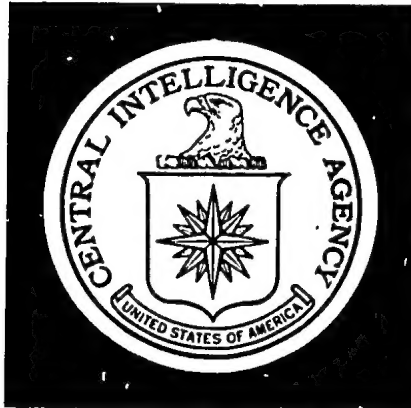


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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

Economic Conditions in South-West Africa

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
October 1968

INTELLIGENCE MEMORANDUM

Economic Conditions in South-West Africa

Summary

The economy of the Territory of South-West Africa has expanded rapidly in recent years under the stimulus of public and private investment. Administrative and technical help from the Republic of South Africa has also been important. Development of agriculture, mining, and fishing (see the map, Figure 1) was reflected in the growth of gross domestic product (GDP) at an average annual rate of almost 12 percent from 1962 through 1966. Exports have increased 20 percent annually since 1963 and in 1966 reached approximately \$300 million. Most of the Black population is engaged in subsistence farming, while the minority White group dominates commercial agriculture, which consists mainly of the raising of cattle for export and Karakul sheep for the export of pelts. Mining -- particularly gem diamonds, copper, and lead -- accounts for about half of the GDP. Fishing, the newest and most rapidly growing industry, has considerable potential, although the appearance of foreign fleets in South-West African waters and general resource depletion may restrict future growth.

South Africa has ignored the UN General Assembly resolution of 1967 terminating its mandate over the Territory of South-West Africa and has begun to implement a master plan for political and economic development of that area. Under this scheme, South Africa will plan, finance, and control economic development; most administrative functions of government will

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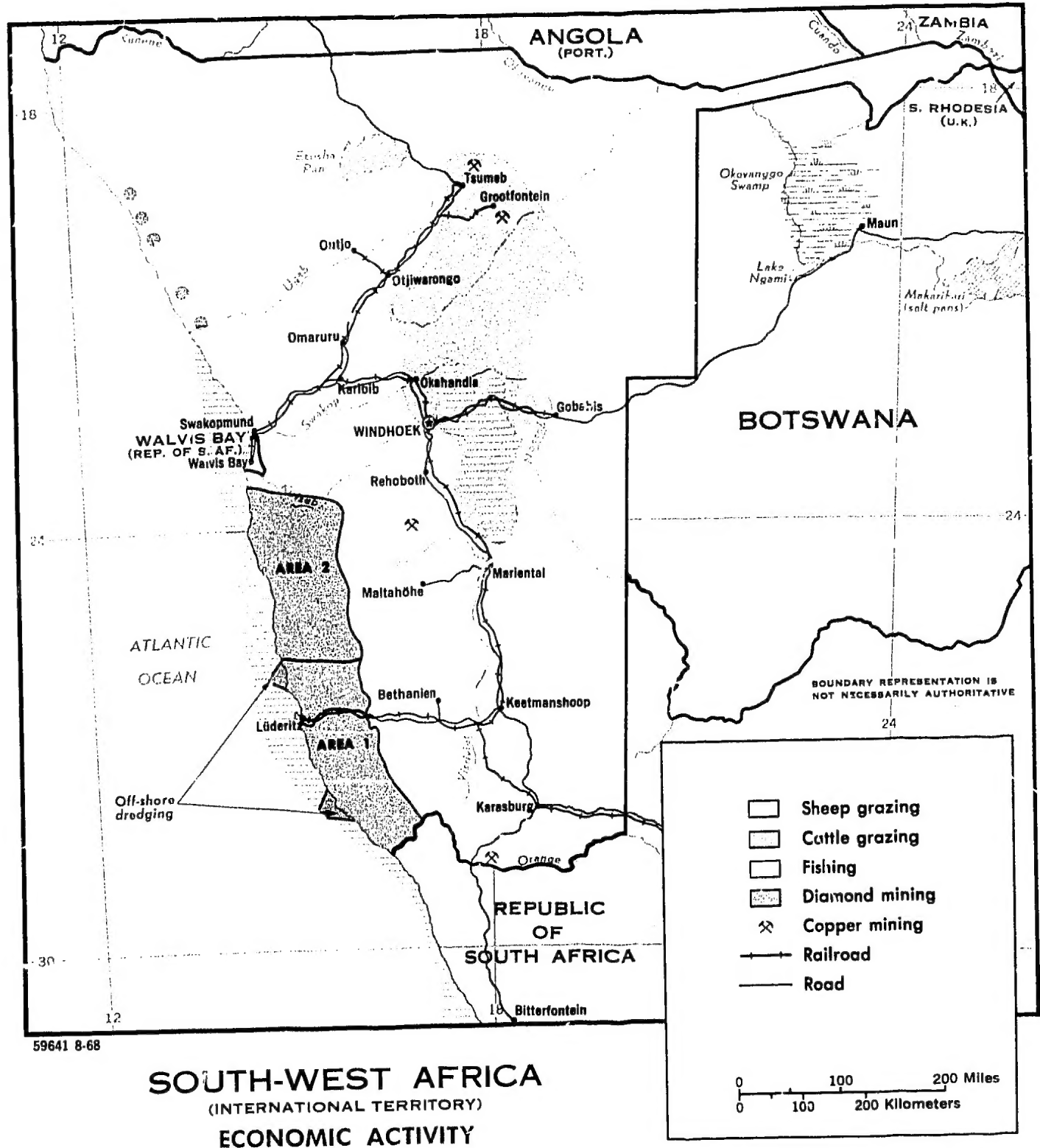
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be transferred from the Territory to Pretoria; and the Territory will be divided into six "homelands" determined by ethnic composition. Whites, who constitute only 16 percent of the population, will continue to dominate the economy and receive the bulk of the national income. A migratory labor system will rotate Blacks between their homelands and places of employment.

South Africa desires to assimilate the Territory mainly for strategic-political reasons, although its economic value to the Republic has increased steadily in recent years. Benefits derived by South Africa are a high return on private investment in South-West Africa, particularly in mining, and considerable foreign exchange earnings from the Territory's exports -- about \$250 million a year. Although South Africa has spent large sums of money on South-West Africa's development, much of it was spent on goods and equipment purchased in South Africa and very little on imports from foreign countries.

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Figure 1



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1. South-West Africa covers an area of about 318,000 square miles, or about twice the area of California, while its population, estimated at 610,000, is no larger than San Diego's. With less than two people per square mile, South-West Africa is one of the most sparsely populated countries in the world. Fewer than 100,000 Whites live in the Territory, while Blacks, constituting seven major ethnic groups and a number of minor ones, number more than 500,000, including some 30,000 of mixed ancestry.

2. Much of the population is engaged in agriculture, although the land is poor and the Territory is subject to extremely severe droughts. Livestock herding is the dominant agricultural activity and is virtually the sole form of commercial agriculture. Crops are produced only by the Blacks for subsistence. About 12 percent of the economically active population is employed in services, and 17 percent is distributed almost equally in construction, mining, and commerce.

3. South-West Africa was a German colony from 1884 to 1915 and was mandated to South Africa by the League of Nations in 1920. The United Nations has repeatedly claimed jurisdiction over South-West Africa on the grounds that it is the successor to the League, but South Africa, while acknowledging a nebulous international responsibility for the Territory, has rejected the UN claim and has continued to administer the Territory as an integral part of its own economy. South Africa has begun to implement a plan to finance and to control further the economic development. Most governmental functions will be transferred from the Territory to Pretoria, and the Territory will be divided into six ethnic "homelands" (see the map, Figure 2). Barring direct international intervention, this close relationship, which is responsible in large part for the growth of the South-West African economy, is likely to continue for the foreseeable future.

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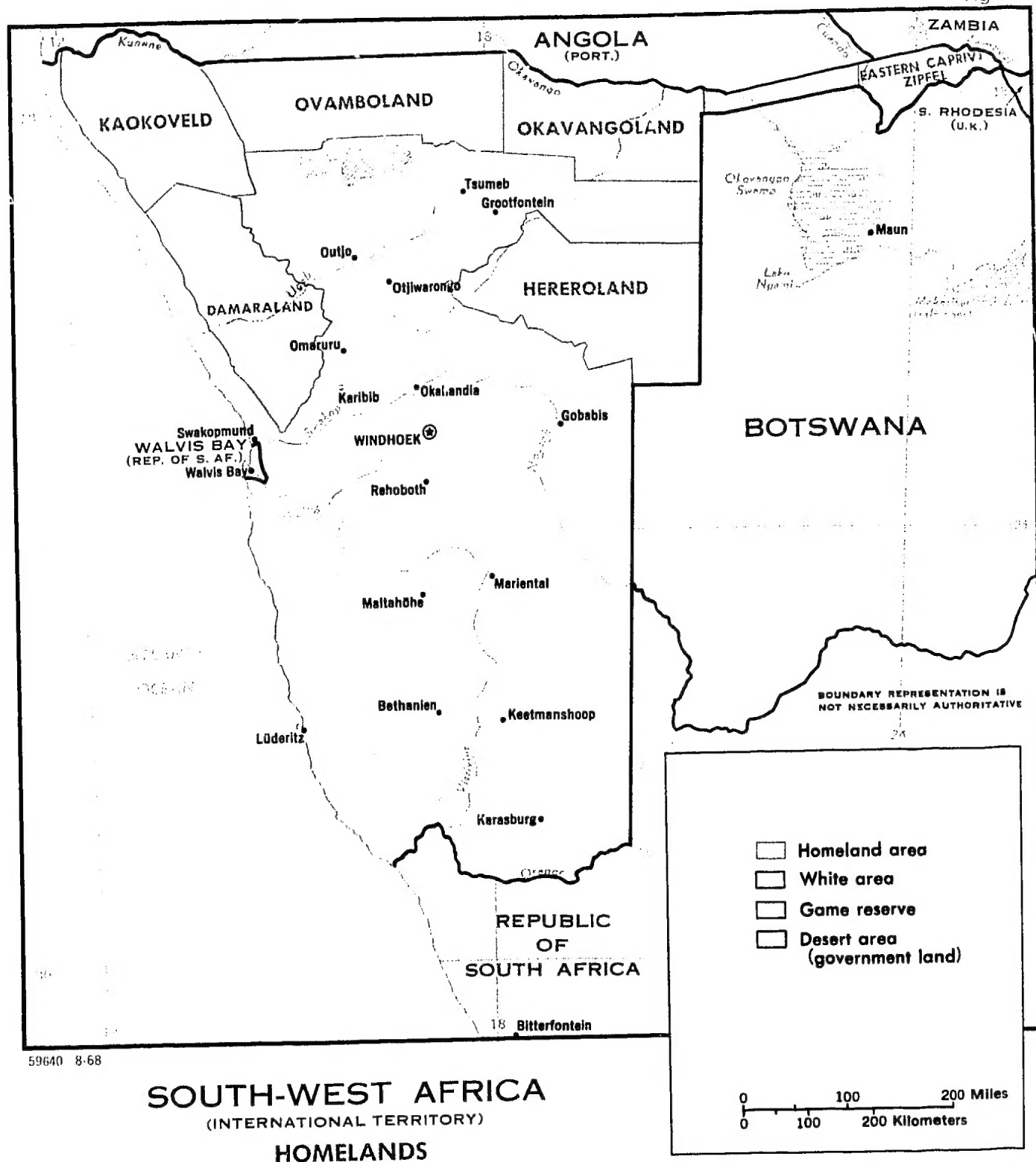
4. South Africa's determination to maintain control of South-West Africa in defiance of the UN and world opinion is based on strategic-political considerations. The economic ties with the Territory, which have grown as a result of South African investment, both public and private, and administrative and technical guidance, are the result of South Africa's efforts to create an effective buffer between itself and Black Africa by overwhelming dominance of the Territory economically and politically. The economy of South-West Africa, with a GDP equivalent to only 3 percent of South Africa's, is not vital to South Africa's prosperity although the Territory's economic importance to the Republic is increasing.

5. In addition to establishing firm political control and providing a favorable investment climate, South Africa has spent approximately \$258 million through the South African Railway and Harbor Administration to build the Territory's infrastructure, primarily roads, railroads, and the port of Walvis Bay. The development of the infrastructure has been an inducement to private interests to invest in South-West Africa's mineral resources, and the railroads in particular have contributed substantially to the growth of the cattle industry. Improvements in Walvis Bay port facilities have been a boon to the growing fishing industry and have facilitated export of primary products to overseas markets. The number of ships calling at Walvis Bay more than doubled during 1965-67, reaching a record high in 1967 of 1,267 calls and 1-1/4 million tons of cargo handled.

6. Private investment from abroad has played a major role in the development of South-West Africa's major industries. Estimated foreign investment (not including South African) in fish processing, mining, and manufacturing amounted to close to \$70 million, or about 53 percent of the total invested in these industries in 1965. Whereas foreign capital accounted for only 14.5 percent of the total investment in

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Figure 2



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fish processing (\$23 million), it controlled 61.4 percent of the \$107 million invested in mining and manufacturing. Nearly all of the remainder of investment in these sectors was from South African funds.

7. South-West Africa obtains 90 percent of its import needs from South Africa, in many cases at prices below world market prices. Other benefits are derived from South Africa's proximity and its efficient distribution system. Approximately half of South-West Africa's total exports, including all livestock exports, a significant portion of fishery products, metals, and minerals, and all of its diamonds are sold to South Africa. Much of the metals, fish products, and practically all of the diamonds are reexported by South Africa. Absence of trade barriers and preferential treatment, particularly in the case of cattle sales, add to the attractiveness of South Africa as a market.

8. South Africa provides the administrative personnel to run the Territory's government, and thus insures a favorable political and economic climate for its own interests. Although South-West African Whites have at times expressed resentment over the extent of South African hegemony, a majority of the Territory's Whites consider the Republic's continued presence to be their only sure defense against external political pressures. The cooperation of the South-West African Whites has facilitated coordination and integration of governmental functions with those of the South African government. This union perpetuates the vested interest of the Whites, while the application of South Africa's political philosophy of apartheid to the Territory is designed to assure the continued political and economic subjugation of the Black residents.

9. The economic benefits to South Africa are not publicized, but are probably considerable, given the small size of the Territory's economy. The return on South African investments in the territory is probably high, and there are no restrictions on repatriation of profits by South Africans. A conducive investment climate is assured by South African control of the administration, which provides stability, safety, and a

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cooperative atmosphere for private investors unusual in most of the African continent. Moreover, South-West Africa's exports contribute substantially to South Africa's foreign exchange earnings both directly and indirectly. Since South-West Africa and the Republic have a common currency, customs, and banking system, South-West Africa's exports, whether direct to other countries or to the Republic for reexport, earn foreign exchange for South Africa. This foreign exchange constitutes approximately 15 percent of the Republic's export earnings, excluding gold, and nearly 10 percent, including gold. With only 10 percent or so of the Territory's imports originating outside South Africa, the Territory's foreign trade provides annual foreign exchange earnings of about \$250 million for South Africa. The repatriated earnings of foreign (except South African) companies probably exceed new investment, but in balance South Africa undoubtedly gains considerable amounts of foreign exchange from its economic union with South-West Africa.

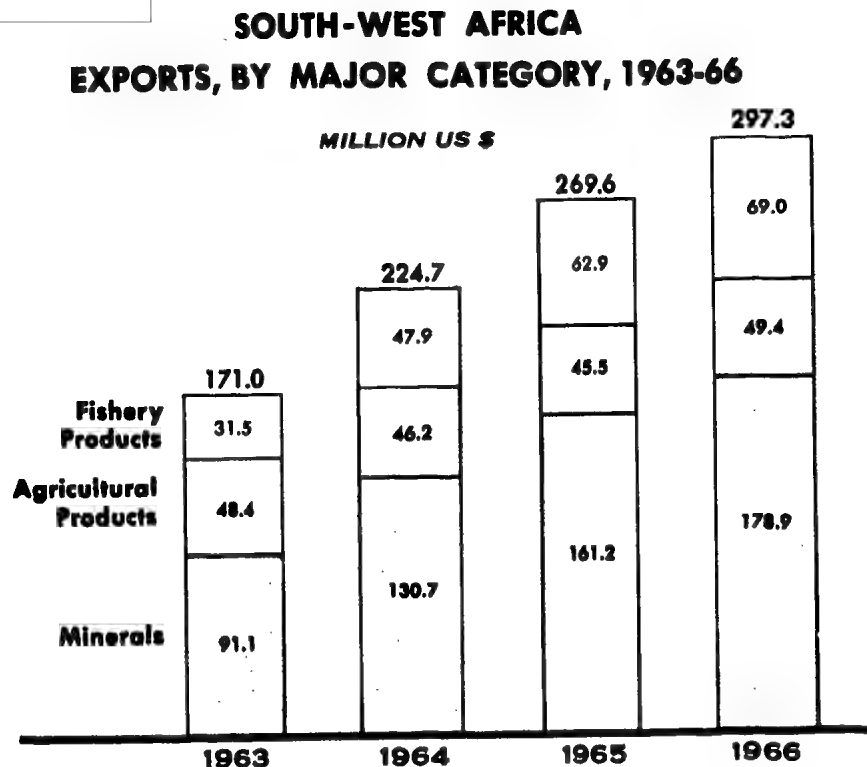
The Economy

10. Agriculture, mining, and fishing are the three mainstays of the South-West African economy, accounting for more than two-thirds of the GDP and virtually all of the Territory's exports. Mining accounts for close to half of GDP, while agriculture's share has declined in recent years to 17 percent. Although fishing accounts for less than 5 percent of GDP, it contributes 23 percent of exports. Exports generated by all three sectors totaled nearly \$300 million in 1966 (see the chart, Figure 3) while GDP, at factor cost, reached \$330 million. The three sectors employ about 65 percent of the economically active population, of which approximately 95 percent are from the Black indigenous population (see Table 1). Many of the latter, however, are subsistence farmers who earn small cash incomes from livestock raising and seasonal employment.

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Figure 3



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11. A considerable part of the income earned in these activities, however, does not benefit the South-West African population. National income is estimated at only \$174 million, which implies a GNP of probably less than \$250 million, or some \$100 million smaller than the GDP. This difference between GNP and GDP represents incomes earned by foreigners in South-West Africa, consisting mainly of the profits of foreign-owned businesses but including also the wages paid the South African employees in the government and private enterprises. A large part of the profits and wages of foreigners

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Table 1

South-West Africa: Distribution
of the Economically Active Population
1960

	Whites		Blacks	
	Number	Percent of Total	Number	Percent of Total
Agriculture and fishing	6,500	24	112,500	64
Commerce	5,900	22	4,700	3
Construction	2,800	10	9,600	5
Manufacturing	1,800	7	4,900	3
Mining	1,700	6	10,200	6
Services	5,000	18	19,300	11
Transport and electricity	3,100	11	4,300	2
Unspecified and unemployed	500	2	10,300	6
<i>Total</i>	<i>27,300</i>	<i>100</i>	<i>175,800</i>	<i>100</i>

probably are repatriated, which would account for the low level of imports (about \$215 million) relative to exports (about \$300 million in 1966) in spite of an inflow of new investment funds.

12. Manufacturing is confined mainly to processing perishable products for local consumption, to finishing and assembling materials obtained from South Africa, and to specialized repair and small-scale production work. Total output of the manufacturing sector in 1963 was about \$25 million, of which food products constituted more than \$18 million. Employment in the sector was only about 3 percent of the labor force.

13. The economy has experienced rapid growth since 1962; the average annual increase in GDP has been nearly 12 percent. The mining sector accounted for most of this growth, more than doubling its output between 1962 and 1966. The rest of the economy grew by less than 10 percent during the four-year period.

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14. The principal commercial agricultural activities in South-West Africa are cattle raising, mainly for shipment to South African markets, and Karakul sheep breeding for pelts, which are sold on Western fashion markets. Crops are produced mainly for the farmers' own subsistence needs. Although the great majority of the population is engaged in agriculture, it accounts for only about 17 percent of GDP. As fishing and mining have increased in importance in recent years, agricultural products have declined as a percentage of exports, falling from 28 percent in 1963 to 17 percent in 1966. Cattle and pelt exports, however, have continued to increase slowly and in 1966 attained a record level of \$45.7 million.

15. South-West Africa's agriculture is vulnerable to frequent destructive droughts. Rainfall throughout the country is highly variable, both in amount and distribution. Conditions are especially poor in southern sectors, where drought is more the rule than the exception. The climate precludes self-sufficiency in foodstuffs, and the bulk of the country's grains, vegetables, and fruits are imported from South Africa. The southern sectors are almost totally dependent on imports to meet their food needs, whereas the northern and northeastern areas in years of good rainfall are able to harvest enough maize, sorghum, wheat, and corn to support their residents. In drought years, however, the north also must rely on imports from South Africa.

16. Livestock exports have accounted for the bulk of agricultural earnings during the past decade, but the Karakul pelt industry has gained in importance in recent years and now contributes more than one-half the earnings. The export value of Karakul pelts more than doubled from 1960 to 1966 (see Table 2), rising from \$12.1 million to a record \$26.5 million. Earnings in this industry, however, are subject to market and price fluctuations, as demonstrated by the more than \$7 million decline in earnings for 1967, reflecting a drop in demand among the principal West European buyers, West Germany, Italy, and France.

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Table 2

South-West Africa: Karakul Pelt Exports
1960-67

<u>Year</u>	<u>Thousand Pelts</u>	<u>Average Price per Pelt (US \$)</u>	<u>Value (Thousand US \$)</u>
1960	1,976	6.13	12,115
1961	2,022	6.51	13,162
1962	2,346	7.56	17,732
1963	2,274	9.90	22,506
1964	2,864	6.72	19,246
1965	2,241	8.76	19,638
1966	2,977	8.92	26,550
1967	2,896	6.64	19,221

17. The dominant agricultural activity of the northern and central areas, where the climate is relatively moderate, is cattle raising for shipment on the hoof to markets in South Africa. The South African market is regulated by the Meat Industry and Control Board, which sets prices for grades of beef and establishes quotas for imports of South-West Africa's cattle. Earnings from cattle exports increased from \$23 million in 1960 to \$32 million in 1967 (see Table 3), principally because of an improvement in the quality of beef. Annual fluctuations in exports result from recurrent drought and cattle diseases. The meat processing industry of South-West Africa is small and plays only a supplemental role in years when the South African market cannot absorb all the cattle offered. Processed meat is sold on the European market. Small amounts of dairy products, principally butter, also are sold to South Africa on a subsidized basis.

Mining

18. Mining is the most important economic activity in South-West Africa, accounting for about 50 percent of GDP. Although the mining interests are held by foreign investors, primarily South African,

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Table 3

South-West Africa: Live Cattle Exports
to South Africa
1960-67

<u>Year</u>	<u>Thousand Head</u>	<u>Average Price per 100 Pounds (US \$)</u>	<u>Value (Million US \$)</u>
1960	300	N.A.	23
1961	233	N.A.	16
1962	170	N.A.	12
1963	263	16.37	21
1964	256	18.19	23
1965	247	21.36	23
1966	177	23.27	19
1967	240	27.16	32

British, and US, mining activity contributes substantial amounts to the local economy in the form of export duties, fees paid to the South-West Africa Administration, wages and salaries, and transportation charges. Diamond recovery is the most important mining activity, representing about 65 percent of mineral exports, followed in importance by blister copper, refined lead, and complex lead-zinc-copper concentrates (see Table 4). These four account for nearly all of the mineral exports, which in 1966 amounted to \$179 million.

19. South-West Africa ranks second to South Africa among the world's producers of gem diamonds (gems represent 86 percent of South-West Africa's diamond production), and accounted for about 20 percent of world gem sales in 1966. The production of South-West African gem and industrial diamonds rose from 931,000 carats in 1959 to about 1.7 million carats in 1966, when exports earned slightly more than \$119 million (see Table 5). Consolidated Diamond Mines of South-West Africa, Ltd. (CDM), an Anglo-American subsidiary that accounts for more than 90 percent of South-West Africa's diamond production, does nearly all of the onshore mining. Thus far, offshore mining -- dredging of the sea bottom -- has been

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Table 4

South-West Africa: Mineral Exports a/
1963-66

Category	1963		1964		1965		1966	
	Million US \$	Percent of Total	Million US \$	Percent of Total	Million US \$	Percent of Total	Million US \$	Percent of Total
<i>Total</i>	91	100	131	100	161	100	179	100
Diamonds	61	68	84	65	98	61	119	66
Blister copper	11	12	20	15	21	13	27	15
Refined lead	Negl.	Negl.	10	8	21	13	17	10
Lead-zinc-copper concentrates	15	16	11	8	14	9	11	6
Other minerals	4	4	6	4	7	4	5	3

a. Production figures are not available. Export figures approximate production, since domestic consumption is negligible.

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- 12 -

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unprofitable, but it is hoped that improvements in equipment and techniques will make it an increasingly important and profitable source of diamonds.

Table 5

South-West Africa: Diamond Exports
1962-66

<u>Year</u>	<u>Weight (Thousand Carats)</u>	<u>Value (Million US \$)</u>
1962	943	48
1963	1,330	61
1964	1,527	84
1965	1,585	98
1966	1,696	119

20. Base metals -- primarily blister copper, refined lead, and lead-zinc-copper concentrates -- account for almost all of the remaining 35 percent of mineral exports. Mineral exports other than diamonds declined from \$63 million in 1965 to \$60 million in 1966 as the world market for refined lead weakened, but there was an increase of nearly \$6 million in the sales of blister copper, because of higher prices on the world market.

Fishing

21. Fishing is the fastest growing economic activity in South-West Africa and contributes an increasingly important portion of GDP and export earnings. The pilchard (primarily sardine) industry, which markets canned fish, fish meal, and fish oil, is the most important; the other two major products are rock lobster and whitefish (edible fish). The value of fish exports more than doubled from 1963 to 1966 (see Table 6), rising from about \$32 million to \$69 million, but declined to \$64 million in 1967.

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Table 6

South-West Africa: Fish Exports a/
1963-67

Product	Million US \$				
	1963	1964	1965	1966	1967
<i>Total</i>	32	48	63	69	64
Pilchards					
Canned	8	14	19	20	25
Fish meal	16	19	28	31	25
Fish oil	2	8	7	7	5
Rock lobster (canned, meal, frozen tails)	4	5	8	9	5
Whitefish (snoek, steenbras, kabeljou, maasbankers, and the like)	1	1	1	1	3
Seal	1	1	1	1	1

a. Because of rounding, components may not add to the totals shown.

22. Fishing activity off the coast of South-West Africa by South African, South-West African, and foreign fishing fleets has been increasing in recent years. Walvis Bay, legally a South African enclave but often viewed as an integral part of the Territory, is the center of the pilchard industry, and the port of Luderitz is the hub of rock lobster and major whitefish interests. With the rapid growth of the fishing industry and because of increasing concern over the presence of foreign fishing fleets, the South-West Africa Administration appointed a Commission of Inquiry to study the industry. The findings of the commission, published in early 1967, emphasized the development of a large, efficient whitefish industry to be centered at Luderitz. To

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protect the companies and resources in South-West Africa, the commission also urged increased surveillance of South-West Africa's territorial waters and an increase in duties and fees for transshipment at Walvis Bay in order to reduce the activities of the 17 nations fishing off the coast.* These foreign fleets catch an estimated 1 million tons annually. In addition, the commission made recommendations designed to halt depletion of the rock lobster and pilchard resources and to improve present port facilities while plans for an additional port on the northern coast are under way.

Prospects

23. The outlook for continued growth of the economy of South-West Africa is good. South-West Africa is relatively well endowed with natural resources, and has the advantage of extensive South African aid. Prospects for mining, the principal industry, are quite favorable. Present levels of production can be maintained for about 15 years, without additional discoveries. Development of infrastructure, moreover, is expected to bring into production some known but hitherto unexploited mineral deposits, while extensive exploration continues for oil and other minerals. Foreign investment in mining may, however, be hindered by the new mining law which took effect in 1967. The law is designed to increase the participation of South and South-West Africans in mining by providing that all new "foreign"-controlled companies seeking exploration or mining rights in South-West Africa must offer up to 50 percent of their equity for purchase by South Africa "nationals," a designation that includes White South-West Africans.

24. Agricultural production should also increase as a result of improved stock raising methods and as the proposed irrigation schemes, which are being coordinated with hydroelectric power projects, are completed. Fishing too will almost certainly grow in importance as conservation techniques are implemented, if the problems of foreign incursion are successfully dealt with.

* The largest and most important are the USSR, Spain, and Japan.

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25. Prospects for the South-West African economy will not be greatly altered by the further application of the master plan for development. The removal of Blacks from centers of economic activity to tribal homelands may cause some labor shortages, but these probably can be handled by rotation of unskilled Black labor between jobs in the money economy and the homelands. Economic development under the master plan calls for a total investment of \$137 million including \$64 million from South Africa. Part of the planned expenditures have already been made. Funds are being allocated to development of water supplies and irrigation, road building, schools, offices, hospitals, airfields, and the purchase of White-owned lands in the designated homelands areas.

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